International Agricultural Trade Report

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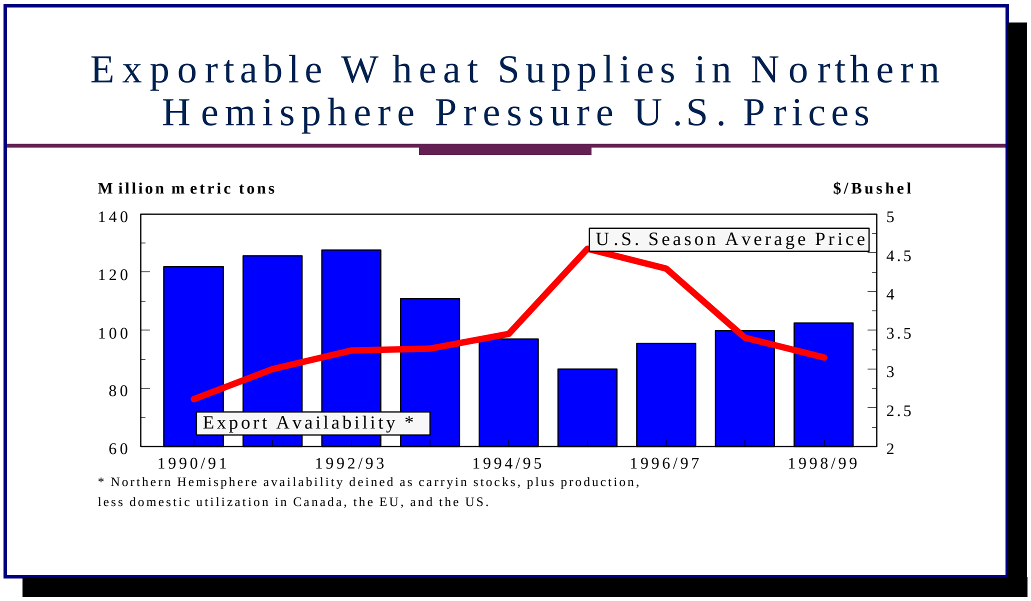
Wheat Prices Are Down, But How Bad Is It Really?

Summary

With prospects for a third consecutive year of increases in Northern Hemisphere exporter availabilities and no appreciable change in global wheat trade, prices in both the cash and futures markets in the U.S. have been falling. The routine "humdrum" nature of current import demand, coupled with the absence of any foreseeable import demand shocks over the next six months, has contributed to the bearish mood in the market, exacerbating the prevailing price declines.



Absent any strengthening in the export outlook, the likelihood of a strong price upswing hinges on a fall in U.S. corn crop prospects, which would buoy all commodity prices. However, while the U.S. views current prices as quite low, the strength of the dollar over the past several months means that these prices are still quite high when expressed in most importing countries' currencies.

What Else Is Depressing Prices?

Record Slow Start to U.S. Export Program *(but things are picking up)*

The U.S. began the 1998/99 marketing year with the lowest level of export commitments since 1977, although new sales for the first six weeks of this marketing year are higher than the same period for the past five years. Last year's strong early-season performance was largely due to import demand in Pakistan, augmented by the absence of the EU from the

North African market. Neither circumstance exists today, and no new demand has stepped in to fill the gap.

Usual Marketing Patterns Don't Bode Well for Strong Export Performance

U.S. sales have historically been strongest at the beginning of the marketing year, tapering off as the year progresses. Thus, a slow start to the U.S. export program is usually a harbinger of a poor export year. With June-Aug exports likely to be lower than last year, the export pace for the rest of the year will need to pick up in order to meet the current USDA export forecast. That export projection, above last year's level, relies heavily upon reduced exportable supplies from competitors other than the EU.

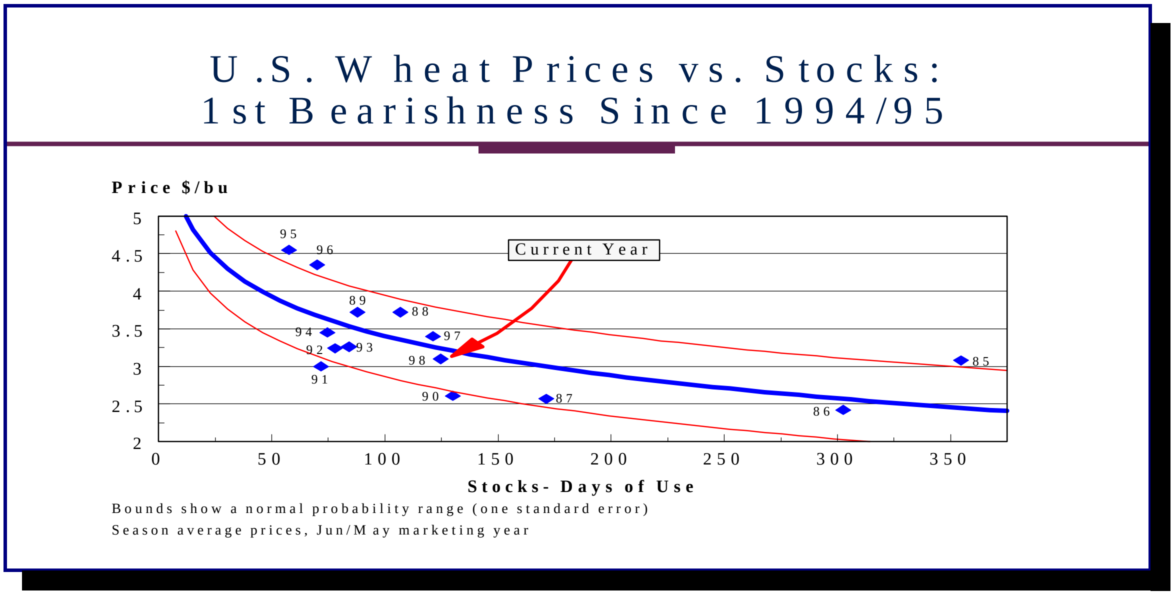
No Rise in Wheat Feeding to Trim Stockpiles

Some wheat makes its way into feed rations every year, but prospects for increased feed use in 1998/99 are slim to none. Wheat usually has to be priced 10-15 percent below corn before there is a significant rise in wheat feed use, and corn prices are currently quite low.

Are Prices Really THAT Low? Perception is everything...

Wheat prices in the U.S. are currently in a normal post-harvest price slump exacerbated by slack exports and prospects of rising wheat stocks. Furthermore, it is the comparison with the high prices of 1996 and 1997 that make the current prices look unusually low.

The chart below expresses wheat season average prices versus carryout stocks (expressed in days of use). It shows that prices in 1995/96 and 1996/97 were not only boosted by a tight stock situation, but a strong *bullish* market sentiment that drove prices into realms outside the normal range of probability. In contrast, this year's projected average prices are in line with the historical price/stocks relationship.



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